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E.O. 11652: GDS
TAGS: NATO, PFOR, MILI, UR, XF,XG, XI
SUBJECT: MEDITERRANEAN REPORT-DECEMBER 1976 - APRIL 1977

FOLLOWING IS THE TEXT OF THE MEDITERRANEAN REPORT
FOR THE PERIOD DECEMBER 1976 - APRIL 1977 WHICH
IS SCHEDULED FOR CONSIDERATION BY THE NORTH ATLANTIC
COUNCIL ON APRIL 27.

BEGIN TEXT:

DEVELOPMENTS IN THE MEDITERRANEAN DECEMBER 1976-APRIL 1977
1. AT THEIR LAST MEETING IN BRUSSELS ON 9TH AND 10TH DECEMBER, 1976,
MINISTERS NOTED A REPORT ON THE SITUATION
IN THE MEDITERRANEAN (C-M(76)65(FINAL)) WHICH HAD BEEN PREPARED
ON THEIR INSTRUCTIONS BY THE COUNCIL IN PERMANENT SESSION.
IN PARAGRAPH 8 OF THE MINISTERIAL COMMUNIQUE, MINISTERS
INVITED THE COUNCIL IN PERMANENT SESSION TO KEEP THE SITUATION
UNDER REVIEW AND TO REPORT TO THEM AGAIN ON THIS MATTER.
2. IN ACCORDANCE WITH THESE INSTRUCTIONS, THE COUNCIL
IN PERMANENT SESSION ARRANGED FOR THE PREPARATION OF THE
CONTINUING REVIEW OF AND CONSULTATION ON THE SITUATION IN THE
MEDITERRANEAN. IN VIEW OF THE FLUIDITY OF THE SITUATION,
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HOWEVER, THE SURVEY HAS FOCUSED ON THE OUTSTANDING EVENTS
AND ON THE GENERAL TREND OF DEVELOPMENTS AS IT AFFECTS THE
ALLIANCE.

I. SIGNIFICANT EVENTS IN THE POLITICAL, MILITARY AND
ECONOMIC SPHERES

A. POLITICAL
EGYPT

3. VIOLENT RIOTING BROKE OUT IN THE MAIN EGYPTIAN
TOWNS IN JANUARY FOLLOWING THE ANNOUNCEMENT OF AN ABRUPT

RISE IN THE PRICE OF FOODSTUFFS AND BASIC CONSUMER GOODS. LAW AND ORDER COULD ONLY BE RESTORED WITH THE HELP OF THE ARMY WHICH HAD REMAINED LOYAL TO THE REGIME. THE INCREASES WERE IMMEDIATELY CANCELLED. SOME DAYS LATER, A DECREE INTRODUCING TIGHTER SECURITY MEASURES WAS WIDELY APPROVED BY REFERENDUM. PRESIDENT SADAT ATTRIBUTED RESPONSIBILITY FOR THE DISORDERS TO THE USSR WHICH, HE CLAIMED, HAD CONSISTENTLY REFUSED TO GRANT A DEBT MORATORIUM AND, EVEN MORE SERIOUSLY, HAD ENCOURAGED THE RIOTS THROUGH THE EGYPTIAN COMMUNISTS.

4. IN THE INTER-ARAB SPHERE, RELATIONS SETTLED DOWN. IN PARTICULAR, THE RECONCILIATION BETWEEN EGYPT AND SYRIA ENSHRINED IN THE RIAD AND CAIRO AGREEMENTS OF OCTOBER 1976, WAS FOLLOWED BY THE VISIT OF ASSAD TO CAIRO IN DECEMBER. NEW FORMS OF POLITICAL AND MILITARY CO-ORDINATION WERE AGREED UPON DURING THIS VISIT AND WILL BE IMPLEMENTED BY A UNIFIED POLITICAL COMMAND(1). THIS IS LIKELY TO BE USED MAINLY AS A DIPLOMATIC INSTRUMENT WITHIN THE CONTEXT OF ANY ARAB-ISRAELI NEGOTIATIONS.

5. AT THE END OF LAST YEAR, SADAT SEEMED INTERESTED IN AN IMPROVEMENT OF RELATIONS WITH MOSCOW IF THE SOVIETS WOULD EASE THEIR OPPOSITION TO MILITARY RESUPPLY AND DEBT RESCHEDULING, AND ON CONDITION, AS HE HAD OFTEN STRESSED IN PUBLIC, THAT THIS DID NOT INVOLVE POLITICAL CONSTRAINTS FOR EGYPT. MR. FAHMI IN FACT MET HIS OPPOSITE NUMBER, MR. GROMYKO, IN SOFIA EARLY IN NOVEMBER 1976 BUT NOTHING CAME OF THEIR
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TALKS. BOTH SIDES STUCK TO THEIR GUNS, EACH APPARENTLY WAITING FOR THE OTHER TO MAKE THE FIRST CONCESSION.

6. SINCE THEN, SADAT'S ACCUSATIONS CONCERNING MOSCOW'S RESPONSIBILITY FOR THE RIOTS AND THE KREMLIN'S CATEGORICAL DISMISSAL OF THESE ACCUSATIONS HAVE AGAIN SERIOUSLY ENVENOMED RELATIONS BETWEEN THE TWO COUNTRIES AND THE RENEWED HOSTILITY HAS BEEN FUELLED EVEN FURTHER BY ACRIMONIOUS EXCHANGES IN THE PRESS OF BOTH COUNTRIES. NEVERTHELESS, MOSCOW SENT ITS OFT-DELAYED ECONOMIC DELEGATION TO CAIRO IN MARCH, SUGGESTING THE KREMLIN'S CONTINUED DESIRE TO PROTECT ITS REMAINING TIES WITH EGYPT.

SYRIA

7. PRESIDENT ASSAD'S PRESTIGE BOTH AT HOME AND ABROAD RECEIVED A CONSIDERABLE BOOST AS A RESULT OF THE RIAD SUMMIT WHICH PUT AN END TO THE FIGHTING IN THE LEBANON ON CONDITIONS WHICH WERE LARGELY IN ACCORDANCE WITH THE SYRIAN PRESIDENT'S WISHES. THE LATTER RECEIVED AT LEAST THE APPROVAL OF THE CONSERVATIVE ARAB COUNTRIES WHICH HAD THE EFFECT OF LEGITIMISING THE POLICY HE HAD BEEN FOLLOWING SO FAR. BUTTRESSED BY THIS APPROVAL, HE CURTAILED EVEN FURTHER THE ACTIVITIES OF THE PALESTINIANS IN THE LEBANON ON THE BASIS OF THE 1969 CAIRO AGREEMENT (INTERPRETED FAR MORE RESTRICTIVELY).

(1) TWO MONTHS LATER THIS COMMAND WAS WIDENED BY THE INCLUSION OF SUDAN, APPARENTLY WITH THE AIM OF KEEPING

IN CHECK SUBVERSIVE ATTEMPTS FROM LIBYA AND MAINTAINING STABILITY IN THE RED SEA AREA.

8. SYRIA'S RECONCILIATION WITH EGYPT HAS MEANT THAT IT CAN RELY WITH GREATER ASSURANCE ON THE SUPPORT OF SAUDI ARABIA. CONCOMITANTLY, ITS CLOSE ALLIANCE WITH JORDAN HAS BECOME EVEN STRONGER.

9. AS FOR SYRIA'S RELATIONS WITH THE USSR, THESE ARE NOT OVERLY CORDIAL EVEN THOUGH THE PRESSURE EXERCISED BY MOSCOW HAS LET UP AS A RESULT OF THE END OF THE FIGHTING IN THE LEBANON. THERE ARE INDICATIONS THAT THE SOVIETS WISH TO REVERSE THE ADVERSE TREND IN THEIR RELATIONS WITH SYRIA AND THERE WERE REPORTS THAT A SYRIAN-SOVIET SUMMIT MEETING WOULD
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TAKE PLACE IN APRIL.

LIBYA

10. GADAFY HAD SHOWN SIGNS AT THE END OF THE YEAR OF PUTTING OUT FEELERS TO EGYPT BUT ANY INTENTION THERE MAY HAVE BEEN SOON FADED AWAY. HE ALSO REMAINS AT DAGGERS DRAWN WITH THE OTHER MODERATE ARAB COUNTRIES.

11. THE LIBYAN PRESIDENT PAID HIS FIRST VISIT TO MOSCOW IN DECEMBER. BECAUSE OF THE NOVELTY OF THE SITUATION AND BECAUSE OF PERSISTENT RUMOURS OF EVEN CLOSER TIES BETWEEN THE TWO COUNTRIES, THIS VISIT WAS PRESENTED AS SOMETHING OF AN EVENT BUT DOES NOT APPEAR TO HAVE BEEN A SUCCESS FROM THE COMMUNIQUE, THAT THE KREMLIN WAS UNABLE TO PERSUADE THEIR VISITOR TO MAKE PRO-SOVIET STATEMENTS. IN ADDITION, WIDE DIFFERENCES OF OPINION, INCLUDING THOSE ON THE ARAB-ISRAELI DISPUTE, APPARENTLY PERSISTED. THE SOVIET LEADERSHIP MAY, HOWEVER, HAVE PLAYED A ROLE IN COL. GADAFY'S DECISION TO STEP UP HIS RELATIONS WITH CUBA. THE CUBAN LEADER PAID A TEN-DAY VISIT TO LIBYA IN MARCH.

JORDAN

12. JORDAN REMAINS ATTACHED TO ITS ALLIANCE WITH SYRIA. KING HUSSEIN IS NEVERTHELESS ADOPTING A CIRCUMSPECT ATTITUDE TOWARDS PROJECTS FOR CO-OPERATION WHICH MIGHT LEAD TO A LOSS OF PART OF HIS POWERS OF DECISION TO DAMASCUS. FOLLOWING THE SYRIAN-EGYPTIAN RAPPROCHMENT, RELATIONS BETWEEN JORDAN AND EGYPT HAVE ALSO IMPROVED.

IRAQ

13. WHILE THE SOVIET UNION AND THE OTHER EASTERN COUNTRIES STILL OCCUPY A PRIVILEGED POSITION IN IRAQI FOREIGN RELATIONS, A CAUTIOUS OPENING TOWARDS THE WEST, ESPECIALLY IN THE ECONOMIC FIELD, HAS NEVERTHELESS TAKEN PLACE. DURING HIS VISIT TO MOSCOW IN FEBRUARY, THE IRAQI VICE-PREMIER, MR. SADDAM HUSSEIN, WAS NO MORE WILLING THAN COL. GADAFY, EARLIER, TO PROVIDE THE HOPED-FOR SUPPORT FOR SOVIET VIEWS CONCERNING THE SETTLEMENT OF THE ARAB-ISRAELI DISPUTE.

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PLO

14. FOLLOWING ITS MILITARY SETBACKS IN THE LEBANON, THE PRESTIGE OF THE PLO HAS FALLEN SHARPLY AND THE EXTREMIST ELEMENTS HAVE BY THE SAME TOKEN LOST A GREAT DEAL OF THEIR INFLUENCE. THE QUADRIpartite COMMISSION FOR THE SUPERVISION OF THE CEASEFIRE (SYRIA, EGYPT, SAUDI ARABIA AND KUWAIT), SET UP AFTER THE CAIRO SUMMIT RULED THAT A FAR MORE STRINGENT INTERPRETATION OF THE EARLIER AGREEMENTS SHOULD GOVERN THE MILITARY PRESENCE OF THE PALESTINIANS IN THE LEBANON. HOWEVER, THE OTHER ARAB COUNTRIES ARE MAKING SURE AT THE SAME TIME THAT SYRIAN CONTROL DOES NOT BECOME EXCESSIVE SO THAT THE ORGANIZATION KEEPS A CERTAIN MEASURE OF POLITICAL INDEPENDENCE PROVIDED THAT THIS IS EXERCISED WITHIN THE FRAMEWORK OF THE COMMON STRATEGY. IT WAS IN PARTICULAR AT THE PROMPTING OF THESE COUNTRIES THAT THE PLO AGREED TO RE-OPEN, AT THE END OF FEBRUARY, THE DIALOGUE WITH JORDAN WHICH HAD BEEN INTERRUPTED SINCE THE SEPTEMBER 1970 REPRESSION.

MALTA

15. DUE CONSIDERATION COULD BE GIVEN TO THE SITUATION IN MALTA OVER THE COMING YEARS.

B. MILITARY

THE SOVIET MEDITERRANEAN SQUADRON COMPOSITION AND STRENGTH (SOVMEDRON)

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16. THE STRENGTH OF THE SOVIET MEDITERRANEAN SQUADRON HAS SHOWN NO MARKED FLUCTUATIONS SINCE NOVEMBER 1976. THE NUMBER OF SURFACE COMBATANTS HAS REMAINED NEAR THE AVERAGE NORMAL LEVEL RECORDED DURING THE PREVIOUS THREE MONTHS. HOWEVER, TAKING 1976 AS A WHOLE, THE NUMBER OF SURFACE COMBATANTS WAS ABOUT 11PERCENT LESS THAN IN 1975, THE FIRST ANNUAL REDUCTION SINCE A PERMANENT PRESENCE WAS ESTABLISHED. NO SINGLE REASON FOR THE REDUCTION HAS BEEN IDENTIFIED, BUT INCREASING MAINTENANCE REQUIREMENTS MAY BE A FACTOR. THE NUMBER OF DIESEL SUBMARINES HAS REMAINED NEAR THE LOWER LEVEL WHICH BECAME ESTABLISHED AFTER THE EXPULSION OF SOVIET SUPPORT UNITS FROM ALEXANDIRA. FEWER MID-DEPLOYMENT REFITS APPEAR TO BE TAKING PALCE, AND

SUBMARINES, APART FROM THOSE REFITTED AT TIVAT, ARE ROTATED MORE FREQUENTLY. THE NUMBER OF AUXILIARY VESSELS HAS REMAINED ROUGHLY CONSTANT, BUT THERE HAS BEEN SOME RECENT INCREASE IN HYDROGRAPHIC ACTIVITY(1).

(1) TO MAKE FOR EASIER READING MORE DETAILED INFORMATION IS APPENDED AT ANNEX I. THE NUMBERS IN BRACKETS REFER TO THE APPROPRIATE PARAGRAPHS OF THE ANNEX.

17. SOVIET DEPLOYMENTS HAVE SHOWN NO VISIBLE DIRECT RELATIONSHIP TO THE AREAS OF TENSION IN LITTORAL STATES, AND NON-ROUTINE ACTIVITY APPEARS TO HAVE MAINLY CONCERNED THE LOGISTIC AND SUPPORT ARRANGEMENTS OF THE SOVMEDRON AND THE INTER-RELATED ENDEAVOUR TO OBTAIN MORE USE OF PORTS IN VARIOUS COUNTRIES. SOVIET ACTIVITY HAS, HOWEVER, REFLECTED INTEREST IN UNITED STATES REACTIONS TO SUCH TENSION.

SOVIET USE OF PORTS, SHIPYARDS AND ANCHORAGES IN THE MEDITERRANEAN AREA

18. APART FROM TIVAT IN YUGOSLAVIA, THE ONLY PORT ACCOMMODATING SOVIET MAINTENANCE AND SUPPORT CRAFT IS TARTUS.

(I) TARTUS, TARTUS IN SYRIA IS USED BY A RESIDENT GROUP OF FOUR SOVIET SERVICING CRAFT, WHICH PROVIDE SOME MAINTENANCE, MAINLY FOR SUBMARINES, ALTHOUGH ON A FAR SMALLER SCALE THAN THAT FORMERLY UNDERTAKEN IN ALEXANDRIA. SOME MOVEMENTS OF SHIPS IN JANUARY SUGGESTED THAT
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THE SOVIET TENURE OF FACILITIES HAD BECOME UNCERTAIN(2). THE SYRIANS MAY WELL HAVE APPLIED - AND STILL BE APPLYING - SOME PRESSURE IN ORDER TO ACHIEVE A CONCESSION, PERHAPS CONNECTED WITH ARMS SUPPLY. THE PRESENT POSITION ON SOVIET FACILITIES IS UNCLEAR.

(II) TIVAT. SOVIET WARSHIP VISITS TO YUGOSLAVIA HAVE BEEN CONSISTENT WITH PREVIOUS PATTERNS AND THERE IS SO FAR NO EVIDENCE OF ANY YUGOSLAV RELAXATION SO FAR AS FACILITIES FOR WARSHIPS ARE CONCERNED (3). IN THIS RESPECT EVEN BREZHNEV'S REQUEST DURING HIS OFFICIAL VISIT IN BELGRADE IN NOVEMBER 1976 WAS TURNED DOWN.

(III) ALGERIA. ON 22ND-27TH NOVEMBER, 1976, TWO SUBMARINES AND ONE SUBMARINE TENDER VISITED ANNABA. DURING THIS VISIT, MEASURES WERE TAKEN TO CONCEAL ACTIVITIES ON BOARD FROM OBSERVERS, AND SOVIET GUARDS WERE POSTED ON THE QUAY, INDICATING SOME UNUSUAL SUBMARINE SUPPORT ACTIVITY. SUBMARINE MAINTENANCE ACTIVITY HAS TAKEN PLACE DURING SUBSEQUENT SIMILAR VISITS ON 1ST-9TH FEBRUARY AND 1ST-9TH MARCH.

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(IV) ANCHORAGES. OTHER SOVMEDRON SUPPORT ACTIVITIES
HAVE CONTINUED IN OPEN ANCHORAGES (4).
(V) PORTS VISITS. THERE WAS AN UNUSUAL NUMBER OF
SHIP VISITS TO TUNISIA IN THE LATTER HALF OF
1976, BUT NONE IN THE FIRST QUARTER OF 1977,
SUGGESTING A RETURN TO NORMAL. ADMIRAL GORSCHKOV
PAID A VISIT TO TUNIS IN MARCH IN THE COURSE OF
WHICH HE HAD TALKS WITH THE TUNISIAN LEADERS.
WHILE THE SPECIFIC PURPOSE OF THIS HIGH-LEVEL
VISIT IS A MATTER OF SPECULATION, THERE CAN
BE LITTLE DOUBT THAT THE SOVIETS WISH TO MAKE
FURTHER USE OF TUNISIAN PORTS FOR TE
SOVMEDRON (5).

USE OF SUEZ CANAL

19. THERE HAVE BEEN NO TRANSITS BY SOVIET OPERATIONAL
WARSHIPS IN THE PERIOD (6).

MONTREUX CONVENTION DECLARATIONS

20. AN ANALYSIS OF THOSE DECLARATIONS IN 1975 AND 1976
WHICH WERE NOT HONOURED HAS CONCLUDED THAT THEY ARE CONSISTENT
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WITH THE DESPATCH OF TWO OR THREE CRUISERS AND TEN OR TWELVE
DESTROYERS WITHIN A PERIOD OF TWO TO THREE WEEKS, DEPENDING
ON WHETHER THE CRISIS WAS UNEXPECTED OR FORESEEN. THE SOVIETS
WOULD PROBABLY HOPE FOR 15 DAYS WARNING TIME OF A MAJOR CRISIS
LIABLE TO INVOLVE THE SOVMEDRON.

KIEV

21. (I) THE DURATION OF THE OPERATIONS OF THE KIEV

WITH THE NORTHERN FLEET SUGGESTS THAT THIS MAY BE A PERMANENT ASSIGNMENT. IT IS BELIEVED THAT SHE WILL RETURN TO THE BLACK SEA FOR DOCKING. A POLISH COMMERCIAL DRY DOCK IS LARGE ENOUGH TO ACCOMMODATE HER, BUT THERE ARE NO KNOWN SOVIET DOCKS OF SUFFICIENT SIZE OUTSIDE THE BLACK SEA.

(II) KIEV WILL PROBABLY NOT REACH AN OPERATIONAL CAPABILITY IN THE USE OF HER FIXED WING FORGER AIRCRAFT FOR SOME TIME. SOME MISSILE TRIALS HAVE BEEN CARRIED OUT, AND SHE POSES A FORMIDABLE THREAT EVEN WITHOUT THE FORGER AIRCRAFT. THE LATTER WILL, WHEN WORKED UP IN EMBARKED OPERATIONS, POSE A THREAT TO NATO MARITIME RECONNAISSANCE AIRCRAFT AND PROBABLY ENABLE POTENTIAL SURFACE-TO-SURFACE MISSILE TARGETS TO BE FOUND AND IDENTIFIED MORE QUICKLY THAN BEFORE. THE FORGERS MAY HAVE A SECONDARY ATTACK CAPABILITY AGAINST SHORE TARGETS, BUT IN THE MEDITERRANEAN CONTEXT WOULD BE TOO FEW TO SERIOUSLY THREATEN LITTORAL NATIONS. A SECOND SHIP OF THE KIEV CLASS IS NEARING COMPLETION,

AND A THIRD UNDER CONSTRUCTION.

SOVIET AND EAST EUROPEAN MILITARY PERSONNEL AND ARMS DELIVERIES

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LIBYA

22. (I) FOLLOWING GADAFY'S VISIT IN MOSCOW IN DECEMBER, THE COMMUNIQUE CARRIED NO SPECIFIC REFERENCE TO MILITARY TIES. SOVIET ARMS DELIVERIES CONTINUED ON A HIGHLEVEL (7). DELIVERIES OF ABOUT A THIRD OF THE EQUIPMENT ARRANGED FOR IN 1974 ARE YET TO BE MADE.

(88) ACCORDING TO SOME RECENT REPORTS, THE NUMBER OF SOVIET AND EAST EUROPEAN MILITARY ADVISERS AND TECHNICIANS IN LIBYA HAS INCREASED AND THEY ARE STATIONED THROUGHOUT THE COUNTRY ON A MORE PERMANENT BASIS THAN PREVIOUSLY NOTED (8). HOWEVER, IN THE SEVEN YEARS THAT THE LIBYANS HAVE BEEN PURCHASING ARMS FROM THE SOVIETS THERE HAS, IN FACT, BEEN NO EXTENSION OF LIBYAN FACILITIES FOR SOVIET USAGE.

(III) THE MILITARY TENSION BETWEEN LIBYA AND EGYPT WHICH DEVELOPED ALONG THEIR COMMON BORDER FROM JULY 1976 AND REACHED ITS PEAK IN SEPTEMBER-OCTOBER LAST YEAR HAS SINCE RELAXED.

(IV) THERE IS SOME EVIDENCE THAT DURING CASTRO'S VISIT TO LIBYA IN MARCH 1977, AGREEMENT WAS REACHED ON MILITARY CO-OPERATION AND THAT A SIGNIFICANT NUMBER OF CUBAN MILITARY PERSONNEL MAY BE SENT TO LIBYA IN THE NEAR FUTURE. IF TRUE, THIS COULD MARK THE START OF A DEVELOPMENT IN WHICH GADAFY RISKS BEING TAKEN FURTHER THAN HE WOULD LIKE.

SYRIA

23. THE COOLING OFF OF SOVIET-SYRIAN RELATIONS OVER
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THE PAST YEAR MADE ITSELF FELT ALSO IN THE MILITARY SPHERE. ON TOP OF SOVIET DIFFICULTIES IN THE USE OF FACILITIES IN TARTUS, THERE IS EVIDENCE OF A DECREASE IN THE NUMBER OF SOVIET AND WARSAW PACT MILITARY ADVISERS IN SYRIA FROM 2,250 IN MID-1976 TO ABOUT 1,750 NOW. SOVIET ARMS SUPPLIES TO SYRIA ARE CONTINUING ALBEIT AT A REDUCED RATE AND THE USSR DOES NOT APPEAR TO HAVE ENTERED INTO NEW COMMITMENTS. THIS SITUATION MIGHT, HOWEVER, CHANGE AS A RESULT OF ASSAD'S FORTHCOMING VISIT TO MOSCOW (9).

24. CZECHOSLOVAKIA RESUMED DELIVERIES OF T-55 TANKS IN JANUARY 1977, AFTER A SIX MONTH GAP. SOVIET FIGHTER AIRCRAFT DELIVERIES, WHICH STOPPED IN JUNE 1976, DO NOT YET APPEAR TO HAVE RESUMED (10).

EGYPT

25. (I) EFFORTS UNDERTAKEN BY EGYPT TO REDUCE ITS DEPENDENCE ON FOREIGN ARMS REMAINED EMBRYONIC (11).

(II) DESPITE THE COOLING OF SOVIET-EGYPTIAN RELATIONS, SOME SOVIET SPARE PARTS HAVE BEEN RECEIVED FOR T-54/55 TANKS AND MIG-21 FISHBED AIRCRAFT, BUT THE SUPPLY IS STILL RESTRICTED ENOUGH TO CAUSE THE EGYPTIANS TO HAVE MIG-21 ENGINES OVERHAULED IN CHINA. BY THE END OF LAST YEAR, 50 OF THESE ENGINES WERE DELIVERED BY CHINA (12).

IRAQ

26. RECENT SOVIET ARMS DELIVERIES INCLUDE 20 FITTER AND FISHBED FIGHTER AIRCRAFT, AND ONE OSA II MISSILE FAST PATROL BOAT. MOST OF THE FIGHTERS WERE IN FULFILMENT OF AGREEMENTS SIGNED IN 1974 AND 1975; HOWEVER, A FURTHER LARGE CONTRACT IS REPORTED TO HAVE BEEN NEGOTIATED DURING 1976 FOR MODERN
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FIGHTERS, MISSILES AND GROUND EQUIPMENT. THERE HAVE RECENTLY BEEN INDICATIONS OF A DECLINE IN THE NUMBER OF SOVIET MILITARY INSTRUCTORS IN ACCORDANCE WITH AN IRAQI POLICY AIMED AT REDUCING ITS DEPENDENCE ON THE SOVIET UNION.

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C. ECONOMIC

EGYPT

27. THE RETURN TO SOME SORT OF ECONOMIC NORMALITY, NOTABLY THROUGH THE IMMEDIATE SUPPRESSION OF STATE SUBSIDIES WHICH KEPT PRICES ARTIFICIALLY LOW, HAD BEEN URGED REPEATEDLY FOR QUITE SOME TIME BY THE IMF AND OTHER POTENTIAL LENDERS, AS A CONDITION TO THEIR FINANCIAL SUPPORT. THEY HAD, HOWEVER ACCEPTED THE EGYPTIAN AUTHORITIES' INSISTENCE THAT A GRADUAL SUPPRESSION OF THESE SUBSIDIES WAS PREFERABLE PRECISELY IN ORDER TO DAMPEN THE IMPACT ON THE PUBLIC. THE REASONS WHICH LED THE EGYPTIAN GOVERNMENT TO CHANGE ITS MIND ARE NOT FULLY CLEAR.

28. THE RIOTS EMPHASISED THE SERIOUSNESS OF THE ECONOMIC (13) SITUATION WHILE REVEALING THE AMOUNT OF POTENTIAL POLITICAL INSTABILITY BOUND TO RESULT FROM ANY TOO SERIOUS AUSTERITY PROGRAMME. EGYPT'S DEPENDENCE ON FOREIGN COUNTRIES HAS INCREASED. ONLY LARGE-SCALE FINANCIAL AID COUPLED WITH A REDUCTION IN MILITARY SPENDING CAN SAVE THE EGYPTIAN ECONOMY FROM BANKRUPTCY. ARAB LENDERS HAVE SHOWN SOME RELUCTANCE UNTIL NOW AND THE "OPEN DOOR" POLICY HAS SO FAR NOT PRODUCED THE

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HOPED-FOR RESULTS (14). EGYPT MUST BRIDGE THE GAP OF THE NEXT FEW YEARS BECAUSE OVER THE MEDIUM TERM IT ENJOYS A NUMBER OF

ADVANTAGES TO GET IT OUT OF THE ECONOMIC DOLDRUMS (15).

29. EGYPTIAN-SOVIET ECONOMIC RELATIONS HAVE NOT SHOWN ANY IMPROVEMENT OVER THE LAST FEW MONTHS BECAUSE THE SOVIETS KEPT REFUSING ANY RESCHEDULING OF EGYPT'S DEBT PAYMENT (16). AT THE END OF THE YEAR, THE RENEWAL OF THE COMMERCIAL AGREEMENT MET WITH DIFFICULTIES AND TH POSTPONEMENT THREE TIMES OF THE VISIT TO EGYPT BY A SOVIET TRADE DELEGATION GAVE FURTHER PROOF OF THE TENSION IN THESE RELATIONS. HOWEVER, THE DELEGATION FINALLY ARRIVED IN CAIRO ON 14TH MARCH TO COMPLETE NEGOTIATIONS FOR THE 1977 PROTOCOL.

SYRIA

30. THE ECONOMIC DIFFICULTIES CAUSED BY SYRIA'S INTERVENTION IN THE LEVANON NOW APPEAR TO HAVE BEEN PARTIALLY OVERCOME. THE EFFECTS OF THE ECONOMIC SANCTIONS IMPOSED BY IRAQ SEEM ALSO TO HAVE BEEN OFFSET BY FINANCIAL ASSISTANCE FROM SAUDI ARABIA.

31. THE POLITICAL DIFFERENCES DO NOT SEEM TO HAVE CAUSED A DISCONTINUATION OF SOVIET AID TO SYRIA. THERE ARE REASONS FOR BELIEVING THAT THE ECONOMIC TIES BETWEEN THE TWO COUNTRIES HAVE SOMEWHAT SLACKENED IN THE COURSE OF THE LAST FEW MONTHS.

IRAQ

32. THE USSR AS WELL AS SOME EASTERN COUNTRIES CONTINUE TO MAKE A SUBSTANTIAL CONTRIBUTION TO IRAQ'S ECONOMIC DEVELOPMENT. BUT IN SPITE OF THE SCALE OF THIS CONTRIBUTION, IRAQ IS CONCERNED NOT TO BECOME TOO DEPENDENT ON THESE COUNTRIES FOR ITS DEVELOPMENT AND IT ALSO HAS, TO A LARGE AND INCREASING EXTENT, RECOURSE TO THE WEST, INCLUDING JAPAN,
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IN PURSUANCE OF ITS AMBITIOUS GROWTH TARGETS, MOREOVER, THE ECONOMY MAY NOW COUNT ON THE BRINGING INTO SERVICE OF THE NEW PIPELINE TO THE TURKISH MEDITERRANEAN COAST (17).

LIBYA

33. THE VISIT IN DECEMBER 1976 OF PRESIDENT GADAFY TO MOSCOW RESULTED IN THE STRENGTHENING OF ECONOMIC TIES BETWEEN THE TWO COUNTRIES. THREE AGREEMENTS ON THE PROMOTION OF TRADE, ECONOMIC AND TECHNICAL CO-OPERATION AND SHIPPING WERE SIGNED. THE AGREEMENT ON SHIPPING MAY ENABLE THE SOVIET MERCHANT FLEET TO MAKE GREATER USE OF LIBYAN PORT FACILITIES (18).

II. PRESENT TRENDS

A. POLITICAL

34. FOLLOWING THE RECONCILIATION BETWEEN SYRIA AND

EGYPT AND AT THE INSTIGATION OF SAUDI ARABIA WHOSE INFLUENCE, PARTICULARLY BEHIND THE SCENES, HAS BECOME STRONGER THAN EVER, THE CONSERVATIVE ARAB CAMP HAS RECOVERED ITS UNITY, AT LEAST ON THE SURFACE. THIS HAS RESULTED IN A REVIVAL OF DIPLOMATIC ACTIVITY AIMED AT EXPLORING THE CHANCES FOR A POSSIBLE ARAB-ISRAELI SETTLEMENT. THE RIOTS IN EGYPT HAVE, HOWEVER, CONTRIBUTED TO WEAKENING SADAT'S POSITION AS ARAB SPOKESMAN. ALTHOUGH HE APPARENTLY HAD THE INTERNAL SITUATION IN HAND, THESE DISTURBANCES SOUNDED A WARNING NOTE AND HIS FREEDOM OF MANOEUVRE HAS BEEN CURTAILED. IT IS THE SAUDI LEADERS, WITH THEIR COUNTRY'S ENORMOUS FINANCIAL RESOURCES, AND PRESIDENT ASSAD, BASKING IN THE SUCCESS OF HIS LEBANESE VENTURE, WHO NOW SEEM TO BE THE FOCAL POINTS FOR INTER-ARAB CONTACTS.

35. SOVIET POLICY IN THE MIDDLE EAST CONTINUES TO MARK TIME. SYRIA DID NOT ALLOW THE KREMLIN'S REMONSTRANCES TO HOLD IT BACK IN THE LEBANON. DESPITE APPEARANCES, AND EVEN IF COL. GADAFY HAS DRAWN CLOSER TO MOSCOW, HE REMAINS DEEPLY MISTRUSTFUL OF THE SOVIET UNION. THE SUPPORT OF IRAQ IS LESS SURE. IN ANY CASE, THE USEFULNESS OF THESE TWO COUNTRIES TO
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THE USSR IS LIMITED SINCE THEIR UNBENDING SUPPORT FOR THE VIEWS OF THE "REJECTION FRONT" HAS ISOLATED THEM IN THE ARAB WORLD. SOVIET UNCERTAINTY IS REFLECTED BY THE DESPATCH OF A ROVING MISSION WHICH VISITED THE MAIN ARAB CAPITALS IN ORDER TO DETERMINE WHAT ROLE THE SOVIET UNION COULD PLAY IN POSSIBLE ARAB-ISRAELI NEGOTIATIONS.

B. MILITARY

36. THE LOW PROFILE OF THE SOVMEDRON IN RECENT MONTHS IS PROBABLY THE COMBINED RESULT OF TWO FACTORS. THERE HAVE BEEN NO SUITABLE MAJOR OCCASIONS FOR DEMONSTRATIVE USE OF THE SQUADRON, AND HENCE NO INCENTIVE TO MAINTAIN A HIGH NUMBER OF COMBATANTS; THE DIFFICULTY OF SUPPORTING DIESEL SUBMARINES, AND POSSIBLY OTHER TYPES OF COMBATANTS, HAS MADE IT DESIRABLE TO KEEP NUMBERS DOWN. THERE IS HOWEVER NO EVIDENCE THAT THIS IS MORE THAN A TEMPORARY PHASE, AND PROVISION FOR CONTINGENCY DEPLOYMENTS HAS BEEN MAINTAINED. ATTEMPTS TO INCREASE THE USE OF LITTORAL PORTS, AND TO OBTAIN FACILITIES AT THEM, WILL NO DOUBT CONTINUE. THERE IS SO FAR NO EVIDENCE OF MAJOR SUCCESS.

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37. SOVIET INTENTIONS FOR THE FUTURE DEPLOYMENT OF KIEV CLASS SHIPS ARE NOT YET CLEAR. EXPECTATIONS OF SUBSTANTIAL MEDITERRANEAN DEPLOYMENTS MAY THEREFORE STILL BE VALID.

38. WHILE LIBYAN-SOVIET RELATIONS IN THE MILITARY FIELD HAVE WARMED OVER THE LAST YEAR, THERE IS STILL NO EVIDENCE THAT COL. GADAFY HAS CHANGED, OR IS ABOUT TO CHANGE HIS POLICY OF KEEPING SOCIET INFLUENCE IN LIBYA TO A MINIMUM. BUT THE POSSIBILITY OF A CHANGE IN THIS SITUATION ON THE GROUND CANNOT BE EXCLUDED.

C. ECONOMIC

39. THE EXTENT OF THE ECONOMIC CRISIS, AS REVEALED BY THE VIOLENCE OF POPULAR REACTION IN EGYPT, GIVES CAUSE FOR CONCERN AS ANY DETERIORATION IN THE SITUATION COULD DANGEROUSLY AFFECT THE BALANCE IN THE AREA AND HAVE POLITICAL IMPLICATIONS.

40. THERE HAS BEEN CONFIRMATION OF THE TENCENCY IN THE OTHER ARAB COUNTRIES TO DIVERSIFY THEIR ECONOMIC RELATIONS VIS-VIS THE USSR AND THE EASTERN COUNTRIES.

III. CONCLUSIONS

41. THE USSR HAS SUFFERED A LOSS OF INFLUENCE IN THE
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MIDDLE EAST. IN THE POLITICAL FIELD, THE ALLIED COUNTRIES SHOULD CONTINUE TO ENCOURAGE ANY INITIATIVE AIMED AT BRINGING ABOUT A JUST AND LASTING PEACE IN THE AREA. IN THE ECONOMIC FIELD, THEY SHOULD CONTINUE TO SUPPORT MEASURES TO ENSURE STABILITY IN THE COUNTRIES OF THE AREA. IN THE MILITARY FIED, THEY MUST REMAIN ALERT TO THE NEED TO PRESERVE THE BALANCE OF FORCES.

ANNEX I TO
C-M(77)23

NOTED TO THE REPORT ON THE SITUATION IN THE MEDITERRANEAN
MILITARY SECTION

THE SOVIET MEDITERRANEAN SQUADRON (SOVMEDRON) (1)
STRENGTH DEVELOPMENTS AND FLUCTUATIONS
(1) (I) COMPOSITION. THE HIGHEST STRENGTH OF THE SOVMEDRON WAS ON 30TH NOVEMBER, 1976, COMPRISING 53 SHIPS, COMPOSED OF 3 CRUISERS,

4 DESTROYERS, 4 ESCORTS, 9 SUBMARINES,
2 LANDING SHIPS, 2 MINESWEEPERS AND 29
AUXILIARIES. THE TOTAL MISSILE STRENGTH AT
THAT TIME WAS 28 SURFACE-TO-SURFACE MISSILE
LAUNCHERS WITH 350 MISSILES. THE LOWEST
STRENGTH OF THE SOVMEDRON WAS ON 30TH DECEMBER,
1976, COMPRISING 41 SHIPS, COMPOSED OF
2 CRUISERS, 3 DESTROYERS, 4 ESCORTS,
10 SUBMARINES, 2 MINESWEEPERS AND 20 AUXILIARIES,
WITH A TOTAL MISSILE STRENGTH OF 40 SURFACE-TO-
SURFACE MISSILE LAUNCHERS AND 14 SURFACE-TO-AIR
LAUNCHERS WITH 160 MISSILES. COMBATANT
STRENGTH HAS SINCE, ON OCCASIONS, BEEN SLIGHTLY
LOWER.

(II) SUBMARINES. THE AVERAGE SUBMARINE STRENGTH
SINCE LATE JUNE AND EARLY JULY 1976 HAS
REMAINED REMARKABLY CONSISTENT AT ABOUT 10 OR
11 BOATS. BEFORE THAT POINT, IT WAS EQUALLY
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CONSISTENT AT AROUND 14. THE DIFFERENCE IS
ACCOUNTED FOR BY A REDUCTION IN DIESEL
SUBMARINES, WHICH IS ATTRIBUTABLE TO THE
REDUCTION OF FACILITIES FOR MID-DEPLOYMENT
REFITS. ALL SUBMARINES IN THE RECENT PERIOD
HAVE COME FROM, AND RETURNED TO NORTHERN FLEET,
AND THE RELIEF PATTERN HAS INVOLVED SMALL
GROUPS OR SINGLE BOATS AT FAIRLY FREQUENT
INTERVALS.

(III) MISSILE STRENGTH. THE SURFACE-TO-AIR MISSILE
STRENGTH REMAINS FAIRLY PROPORTIONAL TO SURFACE
COMBATANT NUMBERS. THE SURFACE-TO-SURFACE
COMBATANT NUMBERS. THE SURFACE-TO-SURFACE
MISSILE STRENGTH FLUCTUATES MORE WIDELY, BEING
MUCH AFFECTED BY THE PARTICULAR CLASSES OF SHIP
WHICH ARE DEPLOYED AT THE TIME. THERE IS AN
APPRECIABLE RISE IN THE AVERAGE NUMBER OF
SURFACE-TO-SURFACE MISSILES IN RELATION TO THE
NUMBER OF DEPLOYED SHIPS, DUE TO THE RETROFITTING
OF CERTAIN CLASSES OF DESTROYERS WITH SUCH
MISSILES.

(1) A CHART SHOWING THE COMPOSITION OF THE SOVMEDRON DURING
THE PERIOD IS ATTACHED AT ANNEX II.
REPAIR AND MAINTENANCE FACILITIES

(2) THE GROUP STATIONED IN TARTUS HAS NORMALLY CONSISTED
OF ONE REPAIR SHIP, ONE DOCKYARD OILER, ONE LIGHTER AND ONE
DIVING TENDER. THE ARRIVAL OF OTHER AUXILIARIES BETWEEN THE
8TH AND 12TH JANUARY, AND THEIR TENDENCY TO LOITER OFF CYPRUS
AFTER DEPARTURE, SUGGESTED THAT SOME NEW DEVELOPMENT WAS
ANTICIPATED. IN RETROSPECT IT APPEARS POSSIBLE THAT THE
SOVIET TENURE OF FACILITIES IN TARTUS HAD BECOME UNCERTAIN,

AND THAT A RE-ARRANGEMENT OF LOGISTIC SUPPORT THEN TOOK PLACE.
A SUBMARINE WHICH HAD BEEN RECEIVING SUPPORT IN TARTUS DEPARTED
15TH JANUARY, BUT WAS THEN REPLACED BY ANOTHER DIESEL SUBMARINE,
SUGGESTING THAT THE SOVIETS DID NOT AT THAT TIME ANTICIPATE
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EARLY EXPULSION. THE COMMANDER OF THE SOVMEDRON VISITED THE
PORT ON 24TH JANUARY.

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(3) THE ROUTINE TURNOVER OF SUBMARINE TENDERS AND REFITTING
SUBMARINE TENDERS AND REFITTING SUBMARINES AT TIVAT LAST TOOK
PLACE AT THE END OF OCTOBER 1976, AND THE NEXT IS EXPECTED
DURING APRIL 1977. A SOVIET STORES SHIP, OF MERCHANT VESSEL
CHARACTERISTICS BUT KNOWN TO BE NAVAL ASSOCIATED, WAS OVER-
HAULED IN TROGIR, YUGOSLAVIA FROM JULY 1976 UNTIL DECEMBER. IT
IS BELIEVED ALSO TO HAVE MADE A BRIEF VISIT TO SIBENIK. IT
WAS REPLACED AT TROGIR BY A PASSENGER TRANSPORT SHIP, FORMERLY
MUCH USED TO FERRY PERSONNEL TO AND FROM THE SOVMEDRON. THIS
SHIP HAS NOW MOVED TO VIVAT.

(4) THE MOST FREQUENTED ANCHORAGES ARE IN THE AREAS OFF
SOLLUM, KITHERA AND HAMMAMET. THERE ARE MOORING BUOYS AT
HAMMAMET, AT THE NORTH OF CYPRUS AND THE SOUTH OF CYPRUS.

PORT VISITS

(5) (I) TUNISIA. THE FREQUENCY OF SHIP VISITS TO
TUNISIAN PORTS MARLEDLY INCREASED AFTER
AUGUST 1976, REACHING AN AVERAGE OF THREE OR
FOUR SHIPS A MONTH TOWARDS THE END OF THE YEAR;
BUT THERE HAVE BEEN NO SUCH VISITS DURING THE
FIRST 3 MONTHS OF 1977. IT HAS BEEN SUGGESTED
THAT THE TUNISIANS WERE RELUCTANT TO ALLOW
THOSE VISITS WHICH DID TAKE PLACE. THERE IS NO
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EVIDENCE OF THE PROVISION OF ANY SUPPORT FACILITIES.

(II) YUGOSLAVIA

RIJEKA 2 CRUISERS, 1 OILER 12TH-18TH JANUARY, 1977

USE OF THE SUEZ CANAL

(6) SOVIET USE HAS BEEN LIMITED TO THE DELIVERY OF FIVE FAST PATROL BOATS TO OTHER NAVIES, SOME TRAFFIC BY OIL TANKERS WHICH ARE KNOWN TO BE NAVAL ASSOCIATED, AND ROUTINE MERCHANT TRAFFIC.

SOVIET AND EAST EUROPEAN MILITARY PERSONNEL AND ARMS DELIVERIES LIBYA

(7) NOTABLY THE FIRST OF SIX "FOXTROT" CLASS SUBMARINES BEING DELIVERED IN DECEMBER, AS WELL AS AN OSA CLASS PATROL CRAFT AND FURTHER LARGE NUMBERS OF MISSILES (INCLUDING SCUD) AND MIG-23 AIRCRAFT. IN ADDITION, YUGOSLAVIA SUPPLIED 8 GALEB TRAINER AIRCRAFT AND 2 JASTREB LIGHT ATTACK AIRCRAFT.

(8) SOVIET ADVISERS HAVE IN MANY CASES THEIR DEPENDENTS WITH THEM AND THEIR CONTRACTS ARE OF A LONGER DURATION THAN BEFORE. THEY ARE RESPONSIBLE FOR MAINTENANCE OF SOVIET EQUIPMENT, TRAINING OF LIBYAN PERSONNEL AND LOGISTICS. WHILE A LARGE LOGISTICAL SYSTEM HAS BEEN ESTABLISHED TO SUPPORT THE LIBYAN ARMED FORCES WITH SOVIET ASSISTANCE, THERE IS NO EVIDENCE THAT SOVIET NAVAL SHIPS OR COMBAT AIRCRAFT HAVE BEEN GRANTED USE OF LIBYAN FACILITIES.

SYRIA

(9) SOVIET/SYRIAN RELATIONS HAVE BEEN UNDER STRAIN SINCE THE SYRIAN ARMY ENTERED LEBANON IN JUNE 1976 TO BRING AN END TO THE LEBANESE CIVIL WAR. BUT IT IS NOT CLEAR THAT THE SYRIAN-LEBANESE CIVIL WAR. BUT IT IS NOT CLEAR THAT THE SYRIAN-LEBANESE ADVENTURE IS THE SOLE REASON FOR THE WITHDRAWAL FOR THE SOVIET AND WARSAW PACT ADVISERS. IT MAY BE THAT CERTAIN CONTRACTS REQUIRING IN-COUNTRY MILITARY ASSISTANCE HAVE NOW COME TO AN END, AND THE ADVISERS HAVE
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RETURNED HOME. FOR EXAMPLE, THE SYRIANS HAVE BEEN FLYING MIG-23 FLOGGER FIGHTERS FOR NEARLY THREE YEARS AND MUST BY NOW BE ABLE TO OPERATE THEM WITHOUT SOVIET ASSISTANCE. WITH REGARD TO ASSAD'S VISIT TO MOSCOW IN APRIL, HE WILL BE ACCOMPANIED BY SENIOR MILITARY ADVISERS WHICH SUGGESTS THAT SOVIET ARMS DELIVERIES WILL BE TAKEN UP POSSIBLY WITH A VIEW TO INCREASING THEM AGAIN.

(10) REPORTED DELIVERIES (MAY NOT BE EXHAUSTIVE):

FROM USSR 5 T-62 TANKS

FROM CZECHOSLOVAKIA 20 T-55 TANKS (BELIEVED TO BE PART OF A CONTRACT FOR 500 T-55 TANKS)

FROM USSR 5 AIRCRAFT CONTAINERS, PROBABLY
MIG-21 FISHBED
200 GAZ-66 TRUCKS

EGYPT

(11) SINCE THE SOVIET FAILURE TO REPLACE WAR LOSSES, EGYPT SEEKS TO EXPAND ITS DOMESTIC ARMAMENTS INDUSTRIES TO PRODUCE A WIDE RANGE OF MODERN WEAPONRY. HOWEVER, IT DOES NOT HAVE THE INDUSTRIAL BASE NEEDED TO KEEP PACE WITH THE RAPID TECHNOLOGICAL ADVANCES MADE BY THE MAJOR POWERS. IN ANY EVENT, LONG-TERM FINANCIAL AID FROM OTHER ARAB STATES AND TECHNICAL ASSISTANCE FROM WESTERN COUNTRIES WILL CONTINUE TO PLAY A MAJOR ROLE. CONSEQUENTLY, EGYPT WILL NOT ACHIEVE INDEPENDENCE FROM FOREIGN SUPPLIERS AT ANY TIME IN THE FORESEEABLE FUTURE.

(12) THE REMAINING 23 SOVIET MILITARY ADVISERS, SERVING WITH THE MIG-23/FLOGGER PROGRAMME, WILL REPORTEDLY LEAVE EGYPT WHEN THEIR CONTRACTS EXPIRE DURING APRIL AND MAY. THEY WILL NOT BE REPLACED. THEIR DEPARTURE SHOULD FURTHER COMPLICATE THE ALREADY PROBLEM-PLAGUED EGYPTIAN AIR FORCE MIG-23 PROGRAMME. ACCORDING TO A PRESS REPORT, PRESIDENT SADAT SAID IN A TELEVISION INTERVIEW BROADCAST IN WASHINGTON THAT THE SOVIET UNION HAD AGREED TO RETURN 50 MIG-21 ENGINES TO EGYPT AFTER OVERHAUL (OUT OF A TOTAL OF 150-180 SENT TO THE USSR TWO YEARS AGO).

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EGYPT

(13) THE TRADING DEFICIT REACHED \$2.1 BILLION IN 1976 (TOTAL EXPORTS OF \$1.1 BILLION AGAINST IMPORTS OF \$3.2 BILLION). AGRICULTURE STILL PROVIDES THE LIVELIHOOD OF 60 PERCENT OF EGYPT'S PEOPLE, 80 ./. OF ITS GNP AND THE BASIS OF ITS INDUSTRY. THE IMMEDIATE CRISIS IS THAT WITH A GNP OF ONLY \$11 BILLION, EGYPT

FACES A TRADE DEFICIT IN 1976 OF \$2.5 BILLION-3 BILLION, AN EXTERNAL DEBT OF \$15 BILLION-18 BILLION AND DEBT SERVICING AT 35 % OF EXPORT EARNINGS. FOOD IMPORTS, INCLUDING 3.3 MILLION TONS OF WHEAT TO FEED CAIRO AND ALEXANDRIA, COME TO \$1.15 BILLION. ONE-THIRD OF THE BUDGET OR \$1.5 BILLION-2BILLION GOES ON MILITARY EQUIPMENT AND SUPPORTING THE 850,000-MAN ARMY.

(14) SAUDI ARABIA, KUWAIT, THE GULF EMIRATES AND QATAR REFUSED TO PLEDGE MORE THAN \$2 BILLION FOR 1976-1980, AFTER GIVING JUST UNDER \$1 BILLION A YEAR IN 1974 AND 1975, TO HELP COVER THE BALANCE-OF-PAYMENTS DEFICIT. MR. SADAT SAYS THAT EGYPT WILL NEED \$10 BILLION-12 BILLION FROM THE OIL-PRODUCING ARABS OVER THE NEXT FIVE YEARS. THE ARAB OIL STATES HAVE PROVIDED ONLY 300 MILLION POUNDS FOR ITS DEFENCE EXPENDITURE, THE SAME AS SYRIA GOT, WITH ONLY A THIRD OF EGYPT'S FORCES. FOLLOWING

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THE 18TH-19TH JANUARY DISTURBANCES IN CAIRO, EGYPT'S ARAB VENEFACTORS DECIDED TO GIVE EGYPT AN ADDITIONAL \$1.5 BILLION IN ASSISTANCE IN 1977 TOWARD REDUCING ITS BALANCE-OF-PAYMENTS DEFICIT. ARAB STATES HAD ALREADY PROMISED EGYPT \$2.2 BILLION FOR THIS YEAR THROUGH PAYMENTS ASSOCIATED WITH THE KHARTOUM AND RABAT AGREEMENTS AND THROUGH THE GULF ORGANIZATION FOR DEVELOPMENT IN EGYPT.

(15) (I) \$10 BILLION WOULD BE REQUIRED IN THE NEXT FIVE YEARS TO ENABLE THE EGYPTIAN ECONOMY TO OVERCOME ITS DIFFICULTIES. IT CAN EXPECT INCREASED FOREIGN EXCHANGE REVENUES FROM THE SUEZ CANAL TRANSITS(1). FURTHERMORE, EGYPT IN 1976 BECAME A NET EXPORTER OF OIL EARNING \$333 MILLION, A FIGURE WHICH COULD RISE TO \$1.1 BILLION IN 1980. THE STARTING OF THE SUEZ-ALEXANDRIA PIPELINE (SUMED) WILL ALSO BRING EGYPT ADDITIONAL EARNINGS. FINALLY, THE OPENING OF FREE TRADE ZONES WILL BE A POSITIVE FACTOR.

(II) BEFORE THE RIOTS, A FIVE-YEAR PLAN WAS TO BE IMPLEMENTED RESTRICTING GOVERNMENT INTERVENTION IN A NUMBER OF SECTORS, TAKING INTO ACCOUNT ALSO THE EXPECTED FINANCIAL AID FROM ABROAD(2). AN ADVISORY GROUP FROM ARAB AND WESTERN GOVERNMENTS AND SUCH INTERNATIONAL ORGANIZATIONS AS THE IMF AND WORLD BANK MAY BE EXPECTED TO MEET TO CO-ORDINATE AID TO EGYPT AND ARRANGE REPAYMENT TERMS THAT WOULD NOT BURDEN THE ECONOMY.

(1) SUEZ CANAL EARNINGS IN 1976 (360 MILLION) WERE ADMITTEDLY BELOW OFFICIAL EXPECTATIONS. HOWEVER, FOR THE FIRST TIME SINCE THE CANAL WAS REOPENED, THE TWO MAIN EUROPE-FAR EAST CONTAINERSHIP OPERATORS DECIDED LATE LAST YEAR TO USE THE CANAL. THIS WILL CONTRIBUTE TO A MARKED INCREASE OF THE TRANSITS.

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(2) ACCORDING TO EGYPTIAN SOURCES, THE IMF AND THE WORLD BANK MAY PROVIDE EGYPT WITH \$1 MILLIARD DURING THE NEXT THREE YEARS. IN ADDITION, THE UNITED STATES IS EXPECTED TO PROVIDE FINANCIAL ASSISTANCE AMOUNTING TO \$750 MILLION FOR FISCAL YEAR 1977; THE FEDERAL REPUBLIC OF GERMANY AND FRANCE AGREED AT THE END OF LAST YEAR TO LEND \$165 MILLION AND \$108 MILLION RESPECTIVELY. LASTLY, AS PART OF AN AGREEMENT WHICH ALSO INCLUDED CUSTOMS CONCESSIONS, THE EUROPEAN COMMUNITY HAS GRANTED FINANCIAL ASSISTANCE WORTH \$200 MILLION OVER 4 YEARS.

(16) THE TALKS ON THE RESCHEDULING BROKE DOWN LAST YEAR WHEN CAIRO DEMANDED CANCELLATION OF INTEREST ON THE \$5 BILLION MILITARY AND ECONOMIC DEBT, A 10-YEAR MORATORIUM ON PAYMENTS AND 30 YEARS THEREAFTER TO REPAY.

IRAQ

(17) THE OPERATION OF THE PIPELINE BETWEEN KIRKUK AND DORTYOL ON THE TURKISH MEDITERRANEAN COAST WHICH WAS STARTED IN JANUARY 1977 AND WILL INITIALLY MOVE 25 MILLION TONS A YEAR SHOULD ENABLE IRAQ TO RESTORE ITS EXPORT CAPACITY. THIS DROPPED IN 1976 BECAUSE THE IRAQIS COULD NOT FULLY OFFSET THE CLOSING OF THE TRANS-SYRIAN PIPELINE BY ROUTING OIL SOUTH TO THE GULF TERMINAL(1). THE SYRIANS HAVE VIGOROUSLY CRITICISED THE OPENING OF THIS NEW LINE, WHICH IS SEEN AS AN IRAQI ATTEMPT TO WEAKEN THEIR ECONOMY.

LIBYA

(18) AMONG OTHER THINGS, THE SOVIETS CONTINUE TO NEGOTIATE THE SALE OF A 990 MW NUCLEAR POWER STATION AND ARE TO BUILD A GAS LINE TO FEED THE MISURATA IRON AND STEEL COMPLEX AS WELL AS SUPPLY THE ATOMIC RESERVE CENTRE WITH A REACTOR INTENDED FOR PEACEFUL PURPOSES.

(1) IT IS ESTIMATED THAT THE CLOSING OF THIS PIPELINE IN 1976 COST IRAQ 5 % OF ITS OIL OUTPUT.END TEXT.STRAUSZ-HUPE

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